

Churchwell **White** ^{LLP}

High Risk Local Government Audit Program

May 14, 2018

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Churchwell **White** LLP

What is the High Risk Local Government Audit Program?

- Assembly Bill 187 (2001)
- The audit program identifies local agencies that are “at high risk for the potential of waste, fraud, abuse, or mismanagement or that have major challenges associated with its economy, efficiency or effectiveness.”
- Cities currently in the audit program include Hemet and Maywood. Other cities such as Monrovia, Richmond, and Ridgecrest have only reached the initial assessment stage.

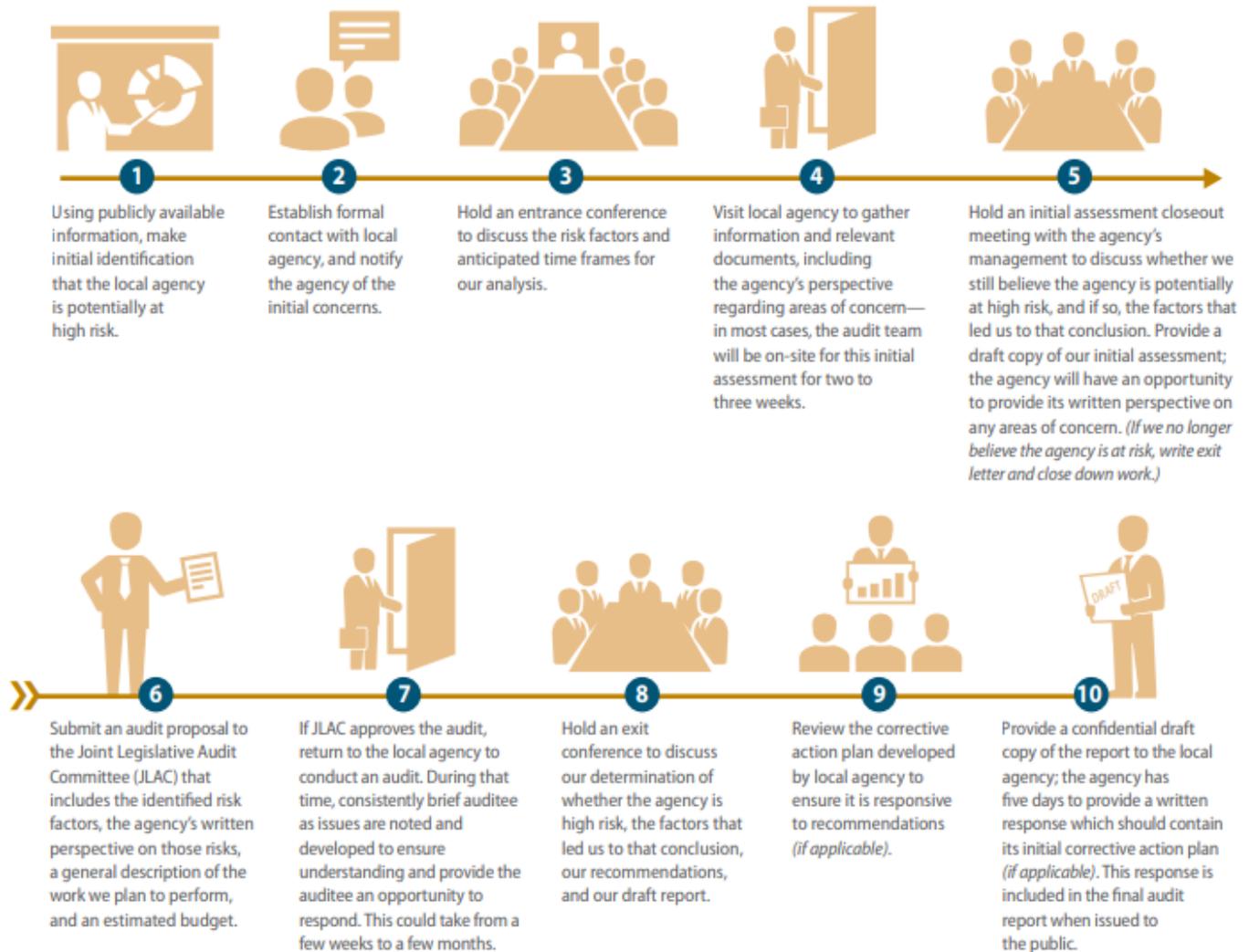


Atwater and the High Risk Local Government Audit Program

- The City of Atwater (“City”) has been identified as a potential candidate for the State Auditor’s High Risk Local Government Audit program.
- In a letter to the Joint Legislative Audit Committee, the State Auditor has identified concerns regarding the City’s budget, operational deficits, financial reporting and practices, and the City’s overall financial condition.
- Due to these concerns, the State Auditor believes that the City may be a high-risk entity, and will request a formal audit.

The California State Auditor's

High Risk Local Government Audit Process



Atwater – Audit Process

- The State Auditor's office has already taken steps to complete its initial assessment.
- A hearing, before the Joint Legislative Audit Committee (JLAC) to consider a formal audit of the City's finances, was scheduled for January 2018.
- City staff, with help from Senator Cannella's office, was successful in obtaining a continuance of the hearing.
- The State Auditor will submit a proposal to JLAC on May 16, 2018, requesting a formal audit of the City.

Audit Process – Next Steps

- If JLAC approves the proposal, the State Auditor will return to the City to conduct a full audit. The audit is paid by the state through a revolving fund for state-level services.
- Upon the conclusion of the audit, the State Auditor will present a report of whether the City should be deemed “high-risk” and the factors supporting the conclusion.
- If the City is deemed “high-risk” it will be required to submit a corrective action plan to the State Auditor. The corrective action plan will be included in the final report released to the public.

Audit – Consequences

- If the City receives a high-risk designation, it will be required to successfully implement its corrective action plan to the State Auditor's satisfaction.
- The City must also provide written updates every six (6) months of its progress in implementing the corrective action plan.
- The City will retain the high risk designation until the State Auditor believes the City has taken satisfactory corrective action.
- Potential impacts to City's credit rating and bond issuance.

Audit – Other Potential Consequences

- Negative impacts to City's risk rating to debt being issued.
- Reports concerning other local agencies have brought other issues to light including:
 - Brown Act violations;
 - Executive mismanagement;
 - Inadequate oversight of City operations;
 - Staffing inadequacies; and
 - Failure to utilize competitive procurement procedures.

Audit – Next Steps

- Continued communication with State Auditor's office.
- May 16, 2018 hearing before JLAC.
- Cooperation with State Auditor for continued monitoring or participation in an audit.

Thank you

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